



Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

Lesson 5

Business Use of the

Home



Agenda

- **Qualifications**
- **Business Percentage**
- **Types of Expenses**
- **Deduction Limit**
- **Recordkeeping**



Introduction

The term '*home*' can include:

- House
- Apartment
- Condominium
- Mobile home
- Boat
- Separate structures such as a garage, studio, barn or greenhouse



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Objectives

- **Determine if you are eligible for the business use of the home deduction**
- **Complete Form 8829 – Expenses for the Business Use of Your Home**



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Qualifying for a Deduction





Use of Business Part of Home

- **Regular**
- **Exclusive ...*and***
- **For your business**



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For Your Business

- **Principal place of business**
- **Place where you meet patients, clients or customers in the normal course of your business...or**
- **Separate structure used in connection with your business**



Exclusive Use

- Specific area of your home used ONLY for your trade or business
 - Room or other separate identifiable space
 - Permanent partition not necessary
- Personal use of area disqualifies it



Regular Use

- **Specific area of your home used for business on a *continuing* basis**
- **Occasional or incidental use does not meet the test**



Principal Place of Business

- **Used regularly and exclusively for administrative or management activities of your trade or business and**
- **No other fixed location where you conduct substantial administrative or management activities of your trade or business**



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Administrative or Managerial Activities

- **Billing Customers**
- **Keeping books and records**
- **Ordering supplies**
- **Setting up appointments**
- **Forwarding orders**
- **Writing reports**



Meeting Place for Customers

- **Physically meet with patients, clients and customers at your home and**
- **Use of your home is substantial and integral to the conduct of your business**



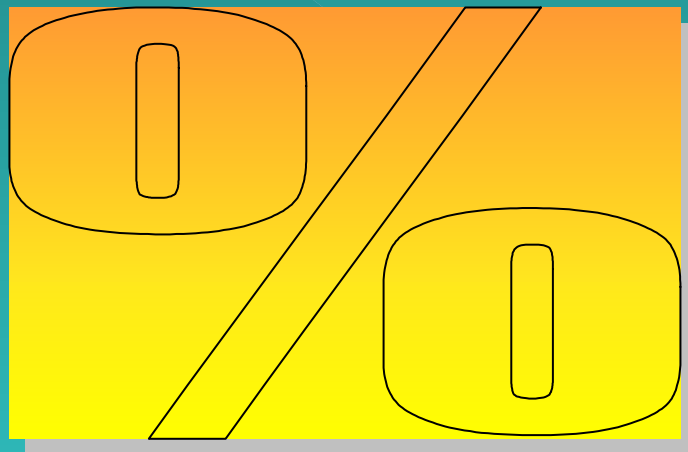
Separate Structure

- **Used regularly and exclusively for your business**
- **The structure does not have to be your principal place of business or a place where you meet patients, clients or customers**
- **Not physically attached to your home (garage, greenhouse, workshop..)**



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Business Percentage





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Business Percentage

Area Method

$$\frac{\text{Area used for business}}{\text{Total area}} = \text{Business \%}$$

Number of Rooms Method

$$\frac{\text{Rooms used for business}}{\text{Total rooms in home}} = \text{Business \%}$$



Form

8829Department of the Treasury
Internal Revenue Service (99)

Expenses for Business Use of Your Home

► File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.

► See separate instructions.

OMB No. 1545-1266

2001Attachment
Sequence No. **66**

Name(s) of proprietor(s)

Your social security number

: :
: :

Part I Part of Your Home Used for Business

1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions

1

2 Total area of home

2

3 Divide line 1 by line 2. Enter the result as a percentage

3

%

• For day-care facilities not used exclusively for business, also complete lines 4-6.

• All others, skip lines 4-6 and enter the amount from line 3 on line 7.

4 Multiply days used for day care during year by hours used per day .

4

hr.

5 Total hours available for use during the year (365 days × 24 hours). See instructions

5

8,760 hr.

6 Divide line 4 by line 5. Enter the result as a decimal amount

6

.

7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ►

7

%

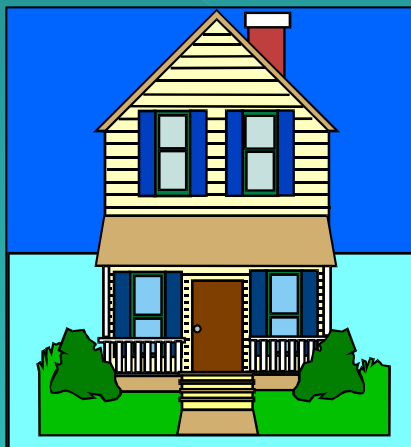


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Types of Expenses





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Types of Expenses

- **Related to the business activity in the home, but not to the use of the home itself**
- **For business use of the home**



Categories of Expenses

Direct

- Only for business part
- Generally deducted in full
- Example: painting or repairs for business area

Indirect

- For running entire home
- Deductible based on business percentage
- Example: utilities, insurance, general repairs

Unrelated

- No deduction
- Example: lawn care



Example of Expenses

- **Real estate taxes**
- **Deductible mortgage interest**
- **Casualty losses**
- **Insurance**
- **Rent**
- **Repairs**
- **Utilities and services**
- **Depreciation**

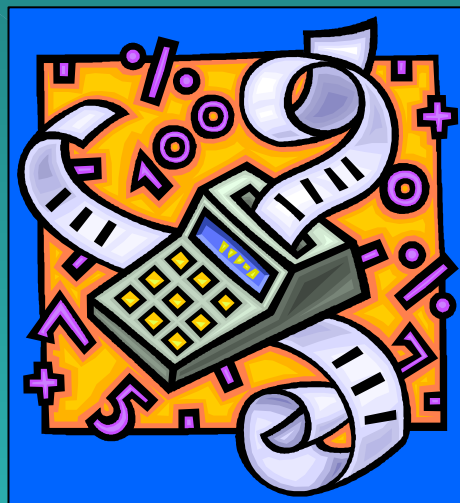


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Deduction Limit



and Other Considerations



Deduction Limit

No Limit -- Gross income from home-based business equals or exceeds total business expenses

Limited -- Gross income from home-based business less than expenses

Gross Income

- **Otherwise deductible expenses (taxes, mortgage interest)**
- **Business expenses not related to home**

Deduction Limit



Carryover

- **Expenses over the deduction limit**
- **Carry forward to later years**
- **Subject to that year's deduction limit**



Where to Deduct Expenses

Business Income and Expenses

- **Non-farm – Schedule C (Form 1040)**
- **Farm – Schedule F (Form 1040)**

Business Use of Home Expenses

- **Non-Farm**
 - **Figure on Form 8829 – Expenses for Business Use of Your Home**
 - **Report deductible amount on Schedule C**
- **Farm**
 - **Figure using worksheet in Pub. 587 – Business Use of Your Home**
 - **Report deductible amount on Sch. F**



No Double Deduction

Real Estate Taxes and Mortgage Interest

- **Business Portion -- Schedule C or F**
- **Personal Portion – Schedule A**



Sale or Exchange of Your Home

- **Pay tax on gain due to depreciation allowed or allowable for**
 - **Business use of your home**
 - **After May 6, 1997**
- **Exclude remaining gain up to limits**
- **Adjust the basis of your home for**
 - **Depreciation allowed or allowable**
 - **Even if you did not claim it**



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Recordkeeping





Recordkeeping

- **Records must show**
 - **Part of home used for business**
 - **Meeting regular, exclusive and use tests**
 - **Depreciation**
 - **Evidence of expenses for business part of home**
- **Evidence of expenses includes**
 - **Cancelled checks**
 - **Receipts**
 - **Invoices, etc**



Name(s) of proprietor(s)
FRANK

Your social security number
131 00 0001

Part I Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions	1	280
2	Total area of home	2	2800
3	Divide line 1 by line 2. Enter the result as a percentage	3	10 %
<p>• For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7.</p>			
4	Multiply days used for day care during year by hours used per day	4	hr.
5	Total hours available for use during the year (365 days × 24 hours). See instructions	5	8,760 hr.
6	Divide line 4 by line 5. Enter the result as a decimal amount	6	.
7	Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	10 %

Part II Figure Your Allowable Deduction

8	Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions See instructions for columns (a) and (b) before completing lines 9-20.	8	30000
9	Casualty losses. See instructions	9	
10	Deductible mortgage interest. See instructions	10	10000
11	Real estate taxes. See instructions	11	2500
12	Add lines 9, 10, and 11.	12	12500
13	Multiply line 12, column (b) by line 7	13	1250
14	Add line 12, column (a) and line 13.	14	1250
15	Subtract line 14 from line 8. If zero or less, enter -0-	15	28750
16	Excess mortgage interest. See instructions	16	
17	Insurance	17	500
18	Repairs and maintenance	18	200
19	Utilities	19	2200
20	Other expenses. See instructions	20	
21	Add lines 16 through 20	21	200
22	Multiply line 21, column (b) by line 7	22	4700
23	Carryover of operating expenses from 2000 Form 8829, line 41	23	470
24	Add line 21 in column (a), line 22, and line 23	24	670
25	Allowable operating expenses. Enter the smaller of line 15 or line 24	25	670
26	Limit on excess casualty losses and depreciation. Subtract line 25 from line 15	26	28080
27	Excess casualty losses. See instructions	27	
28	Depreciation of your home from Part III below	28	517
29	Carryover of excess casualty losses and depreciation from 2000 Form 8829, line 42	29	
30	Add lines 27 through 29	30	517
31	Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30	31	517
32	Add lines 14, 25, and 31	32	2437
33	Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B	33	
34	Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ►	34	2437

Part III Depreciation of Your Home

35	Enter the smaller of your home's adjusted basis or its fair market value. See instructions	35	250000
36	Value of land included on line 35	36	40000
37	Basis of building. Subtract line 36 from line 35	37	210000
38	Business basis of building. Multiply line 37 by line 7	38	21000
39	Depreciation percentage. See instructions	39	2.461 %
40	Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions	40	517

Part IV Carryover of Unallowed Expenses to 2002

41	Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-	41	
42	Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-	42	





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Need More Information?

- **Form 8829 - Expenses for the Business Use of Your Home**
- **Publication 587 - Business Use of Your Home**
- **Website - www.irs.gov/smallbiz**
- **Visit a local office**
- **1-800-829-4933 Business and Specialty Tax Line**